

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL
LEGISLATURE AND COUNCIL ON EDUMBE MUNICIPALITY
REPORT ON THE FINANCIAL STATEMENTS**

Introduction

1. I have audited the financial statements of the eDumbe Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with the Public Audit Act of South Africa, the general notice issued in terms thereof and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for qualified opinion

Irregular expenditure

6. I was unable to obtain sufficient appropriate audit evidence on irregular expenditure amounting to R5,3 million disclosed in note 39 to the financial statements, as the misstatements identified during the audit were not adequately adjusted and no evidence was provided that the entire population had been evaluated.

Cash flow statement

7. I was unable to obtain adequate audit evidence that the cash flow statement and related notes for the current and prior financial period were fairly stated, as material uncorrected misstatements on net cash flows from operating activities amounting to R25,51 million (2012: R14,31 million) existed due to misstatements of receipts and payments recorded.

Qualified opinion

8. In my opinion, except for the effect of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the eDumbe Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matter

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

10. As disclosed in note 36 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an errors discovered during 2013 in the financial statements of the eDumbe Municipality at, and for the year ended, 30 June 2012.

Going concern

11. As disclosed in note 46 to the financial statements of eDumbe Municipality, the municipality could not pay off the instalments for the loan, debtor collection rate was very low and conditional grants could not be backed up by cash in the bank. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern in the foreseeable future.
12. As disclosed in note 46 of the annual financial statements, conditional grants are not cash backed. Thus the funds for which conditions have not yet been met on the Municipal Infrastructure Grant and Integrated National Electrification Programme Grant were utilised for purposes other than those stipulated in their respective schedules or gazetted DoRA framework, in contravention of the requirements of section 15(1) of DoRA.

Material losses

13. As disclosed in note 42 to the financial statements, material distribution losses amounting to R848 934 and 1,825 million kilowatt-hours were incurred as a result of electricity distribution losses.

Unauthorised expenditure

14. As disclosed in note 38 to the annual financial statements unauthorised expenditure to the amount of R12,26 million was incurred as a result of actual expenditure exceeding the budget for other own expenditure.

Fruitless and wasteful expenditure

15. As disclosed in note 40 to the financial statements, fruitless and wasteful expenditure of R303 261 was incurred as a result of interest, penalty charges on late payment of suppliers and inefficiencies identified in work completed by a consultant.

Significant uncertainty

16. With reference to note 34 in the financial statements, employees of the municipality have not been paid according to the wage scales and rates in the South African Local Government Association (SALGA) Categorisation and job evaluation wage curves collective agreement. The municipality has not finalised job evaluations pending the outcome of the lawsuit by the union disputing the agreement. The amount of the obligation cannot be determined with sufficient reliability and no provision for any liability that may result has been made in the financial statements.

Additional matter

17. I draw attention to the matter below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

18. The supplementary information set out on pages XX to XX do not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

19. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

20. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
21. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information (FMPPI)*.

The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

22. The material findings are as follows:

Usefulness of information

Presentation

23. Section 46(c) of the Municipal Systems Act (Act No.32 of 2000)(MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for a total of 28% of the planned targets not achieved were not reflected in the annual performance report. The manager: performance and head of department did not have knowledge of performance reporting in the performance report;

Measurability

24. The National Treasury FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 21% of the targets were not specific in clearly identifying the nature and the required level of performance. The management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles

Reliability of information

Reliability

25. The National Treasury FMPPI requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. A total of 21% of the actual reported indicators relevant to local economic development and basic service delivery and infrastructure development were not accurate when compared to source information. This was due to a lack of review and standard operating procedures for the recording of actual achievements by senior management.

Additional matter

26. I draw attention to the matter below. My conclusion is not modified in respect of this matter

Achievement of planned targets

27. Of the total number of 60 targets planned for the year, 25 targets were not achieved during the year under review. This represents 43% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

Compliance with laws and regulations

28. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

Annual financial statements

29. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving a qualified opinion.

30. The accounting officer did not make the 2011/12 annual report public immediately after the annual report was tabled in the council, as required by section 127(5)(a) of the MFMA.
31. The 2011/12 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
32. A written explanation was not submitted to council setting out the reasons for the delay in the tabling of the 2011/12 annual report in the council, as required by section 127(3) and 133(1)(a) of the MFMA.
33. Oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2011/12 annual report was tabled, as required by section 129(1) of the MFMA.

Budgets

34. Expenditure was incurred that was in excess of the limits provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Internal audit

35. The internal audit unit did not audit the performance measurements on a continuous basis and/or submit quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal Planning and Performance Management regulation 14(1)(c).

Procurement and contract management

36. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of Supply Chain Management regulation (SCM) regulation paragraphs 17(a) and (c).
37. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulations 19(a) and 36(1).

Expenditure management

38. Reasonable steps were not taken to prevent irregular expenditure, unauthorised and fruitless and wasteful expenditure as required by section 62(1)(d) of the MFMA.

Internal control

39. I considered internal control relevant to my audit of the financial statements, performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in a qualified audit opinion, the findings on the performance report and the findings on compliance with laws and regulations included in this report.

Leadership

43. The accounting officer and municipal council did not exercise effective oversight responsibility over the annual financial statements, annual performance report and compliance with key legislation as well as the annual financial statements.

Financial and performance management

44. The accounting officer has not implemented a proper record management system for the maintenance of documents supporting the reported annual financial statements and performance reporting.
45. There was a lack of ongoing monitoring and review of the key laws and regulations.
46. Inadequate monthly monitoring and reconciling of transactions, balances and reports were noted in respect of SCM and reporting on predetermined objectives.

Governance

47. Internal audit and the audit committee have not performed adequate reviews of compliance with laws and regulations and reporting on predetermined objectives

OTHER REPORT

Investigations in progress

48. The municipality has three disciplinary proceedings that are in progress which involve two managers and one employee who have been charged with financial misconduct.

Investigations completed

49. The municipality has also completed two labour related cases against former employees, with one being settled out of court and the other being dismissed by an arbitrator.

Auditor-General

Pietermaritzburg

30 November 2013



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence